

ORIGINAL

# OPEN MEETING

## MEMORANDUM



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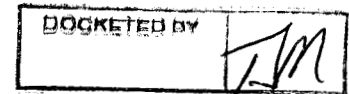
TO: THE COMMISSION

2012 JUN 21 P 2:48

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: June 27, 2012



RE: MORENCI WATER & ELECTRIC COMPANY – APPLICATION FOR AN  
ADJUSTMENT IN ITS PURCHASED POWER AND FUEL ADJUSTMENT  
CLAUSE RATE (DOCKET NO. E-01049A-12-0142)

On April 12, 2012, Morenci Water & Electric Company (“Morenci” or “Company”) filed a request for an adjustment to its Purchased Power and Fuel Adjustment Clause (“PPFAC” or “adjustor”) rate from negative \$0.051 per kWh to negative \$0.03122 per kWh to address the projected under-collected account balance. Morenci indicates that customers are paying a fuel and purchased power rate that is below the actual cost of fuel and purchased power; therefore, Morenci’s account balance will exceed the under collected threshold of \$500,000 in the first part of 2013. Morenci projects an account balance of \$497,247 (representing its under-collection of fuel and purchase power by this amount) by the end of 2012, growing to \$1,025,664 by the end of 2013.

### Background

Morenci is an Arizona public service corporation certificated by the Commission to provide electric and water service to customers in various portions of Greenlee County, Arizona. As of December, 2011 they have 2,035 residential and 244 commercial customers.

Decision No. 54712 (October 10, 1985) set a base cost of purchased power at \$0.07522 per kWh that is embedded in base rates. A PPFAC mechanism is established to true-up revenue collections with the fluctuating costs of purchased power between rate cases. When the actual cost of purchased power exceeds (or has exceeded) the base cost of purchased power and a utility’s under-recovery of costs is projected to persist into coming months, the PPFAC rate is set to a positive number. However, when actual purchased power costs are lower than the base cost of power, as in Morenci’s situation, the PPFAC rate is set to a negative number. The PPFAC account balance tracks the differences between actual purchased power costs and those recovered through the combination of base rates and the PPFAC rate.

In Decision No. 68438 (February 2, 2006), the Commission approved the over-collected threshold level of \$200,000 and the under-collected threshold level of \$500,000 for Morenci. The Commission further ordered that the Company file an application to establish a new PPFAC rate either two months prior to the month the account balance was projected by the Company to reach zero, or by December 31, 2006, whichever occurred first.

In Decision No. 68813 (June 29, 2006), the Commission approved an adjustor rate of negative \$0.019 per kWh that replaced the previous adjustor rate of negative \$0.02939 per kWh.

In Decision No. 71468 (January 26, 2010), the Commission approved a temporary PPFAC rate of negative \$0.027 per kWh for a 12-month period starting February 2010 through January 2011. The Commission approved the current PPFAC rate of negative \$0.051 per kWh in Decision No. 72065 (January 6, 2011).

#### Pending Rate Case

Morenci filed a rate case on July 29, 2011, in Docket No. E-01049A-11-0300. In the rate case Morenci is proposing a change to the current PPFAC mechanism to include a forward and true-up component, i.e., the existing PPFAC will be reviewed and may be modified in this pending rate case.

#### Account Balance

Over- or under-collections are currently tracked and accumulated in an account with a threshold of \$200,000 for over-collection and \$500,000 for under-collection. The Company's PPFAC account balance has been under-collecting since January 2011 and will exceed the under-collected threshold by January 2013. Morenci states in its application the reason that its account balance will exceed the under-collected threshold is that customers are paying a fuel and purchased power rate that is below the actual cost of fuel and purchased power. Morenci's account balance as of March 2012 is an under-collected amount of \$100,935 and, based on updated forecasts provided to Staff, Morenci estimates the under-collected amount will be \$497,247 by the end of 2012.

#### Morenci's Proposal

Morenci is proposing to change the PPFAC rate from negative \$0.051 per kWh to negative \$0.03122 per kWh starting on or before September 1, 2012. Based on its current estimate of power costs, Morenci believes its proposal will reduce the under-collected balance to \$181,611 by the end of 2013. Attachment 1 is a worksheet illustrating Morenci's actual demand, current PPFAC rate and the associated account balance based on actual data from January 2011 to March 2012 and forecasted demand from April 2012 through December 2015. The worksheet shows the estimated monthly bank balance from September 2012 through December 2015, assuming the proposed PPFAC rate started in September 2012.

The current and proposed PPFAC adjustor rates are both negative as Morenci's actual costs for purchased power continue to be lower than the base cost of power set in Decision No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to two industrial customers, copper mines. These sales fall outside the PPFAC because the customers are served under a special contract. The PPFAC mechanism is relevant only to the other two percent of Morenci's sales consisting of approximately 2,035 residential and 244 commercial customers. Staff calculated the average monthly use per residential user to be 657 kWh and,

based on the average usage, Staff estimates residential customers will have an average increase of \$12.99 per month. Staff agrees with Morenci's assessment that an increase from \$0.051 to negative \$0.03122 is necessary to prevent a rapid and expanding under-collection by the Company, and that the increase is appropriate and in the public interest.

Notice

Morenci has notified Staff that it has published notice of its proposed adjustor rate in the May 2, 2012 edition of the *Copper Era*, a newspaper of general circulation in Greenlee County.

Recommendations

1. Staff recommends that a PPFAC rate of negative \$0.03122 be approved starting September 2012 and remain in effect until further order of the Commission.
2. Staff recommends that Morenci notify its customers of the amount of the PPFAC rate and the potential bill impacts at average monthly levels of kWh use within 30 days of the effective date of the Decision in this case, and in a form acceptable to Staff.



Steven M. Olea  
Director  
Utilities Division

SMO: PML:sms/WVC

Originator: Patrick M. Lowe

MORENCI WATER ELECTRIC CO.  
PURCHASED POWER FUEL ADJUSTER  
BANK BALANCE REPORT FA-1

	Actual Jan-11	Actual Feb-11	Actual Mar-11	Actual Apr-11	Actual May-11	Actual Jun-11	Actual Jul-11	Actual Aug-11	Actual Sep-11	Forecast Oct-11	Forecast Nov-11	Forecast Dec-11	Total
1 Ending Bank Balance from Previous Month	(547,390)	(490,963)	(444,225)	(410,866)	(372,077)	(340,869)	(303,670)	(247,678)	(187,763)	(130,078)	(85,994)	(55,531)	(547,390)
2A Jurisdictional Sales	2,751,074	2,504,866	2,341,160	2,421,963	1,988,631	2,477,666	3,292,435	3,219,982	3,778,024	2,999,724	2,346,811	2,478,369	32,557,825
2B Total Sales(Incl Spec Cont)	116,201,569	109,306,153	123,909,854	117,197,028	121,336,474	117,943,705	122,026,989	122,993,052	118,241,520	118,433,818	121,223,086	127,008,725	1,436,828,783
2C Special Contract Sales (Industrial kWh)	113,457,495	106,801,287	121,568,694	114,775,065	119,347,843	115,466,019	118,744,584	119,773,074	115,466,466	118,876,175	124,530,356	124,530,356	1,404,270,958
3 Actual Cost of Purchased Power	5,198,366	4,866,969	4,780,353	4,721,302	4,842,908	4,657,347	5,037,032	5,267,467	4,708,937	4,507,460	4,664,482	5,386,241	58,392,504
4 Unit Cost of Purchased Power	0.0473307	0.04287873	0.039417873	0.040285168	0.039913027	0.039233539	0.0412780	0.04287354	0.03949662	0.038058957	0.038478	0.042274584	0.040640
5 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster: Per Decision No 61298 Dated 12/89	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)
6A Supplemental PPA per Decision No. 61676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422
8 Incremental Difference between authorized and actual recovery	0.020513	0.018659	0.014188	0.016065	0.015863	0.015614	0.017058	0.018807	0.015277	0.018839	0.014256	0.016055	0.016420
9 Net change to Bank balance:	56,433	46,738	33,239	38,309	31,208	37,199	55,992	59,915	57,684,88	41,084	33,463	44,746	536,611
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	(490,963)	(444,225)	(410,866)	(372,077)	(340,869)	(303,670)	(247,678)	(187,763)	(130,078)	(85,994)	(55,531)	(10,785)	(10,785)

	Actual Jan-12	Actual Feb-12	Actual Mar-12	Actual Apr-12	Actual May-12	Actual Jun-12	Actual Jul-12	Actual Aug-12	Actual Sep-12	Forecast Oct-12	Forecast Nov-12	Forecast Dec-12	Total
1 Ending Bank Balance from Previous Month	(10,785)	(20,670)	(71,048)	(100,934)	(144,969)	(189,004)	(233,039)	(277,074)	(321,109)	(365,171)	(409,252)	(453,335)	(10,785)
2A Jurisdictional Sales	3,039,360	2,864,129	2,792,413	2,667,000	2,667,300	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	32,665,022
2B Total Sales(Incl Spec Cont)	126,971,915	117,425,323	122,070,811	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	1,515,479,849
2C Special Contract Sales (Industrial kWh)	123,932,565	114,561,184	119,278,198	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	1,382,771,947
3 Actual Cost of Purchased Power	4,773,654	4,532,288	4,263,019	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	60,368,981
4 Unit Cost of Purchased Power	0.037596141	0.038597194	0.034922566	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.039835
5 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster: Per Decision No 61298 Dated 12/89	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)
6A Supplemental PPA per Decision No. 61676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422
8 Incremental Difference between authorized and actual recovery	0.013376	0.014377	0.010703	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511
9 Net change to Bank balance:	40,654,91	41,178,14	29,885,99	44,034,74	44,034,74	44,034,74	44,034,74	44,034,74	44,034,74	44,034,74	44,034,74	44,034,74	297,019
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	29,870	71,048	100,934	144,969	189,004	233,039	277,074	321,109	365,171	409,252	453,335	497,419	286,234

MORENCI WATER ELECTRIC CO.  
PURCHASED POWER FUEL ADJUSTER  
BANK BALANCE REPORT FA-1

Docket No. E-01049A-12-0142

	Forecast Jan-13	Forecast Feb-13	Forecast Mar-13	Forecast Apr-13	Forecast May-13	Forecast Jun-13	Forecast Jul-13	Forecast Aug-13	Forecast Sep-13	Forecast Oct-13	Forecast Nov-13	Forecast Dec-13	
1 Ending Bank Balance from Previous Month	286,233	277,514	268,795	260,076	251,357	242,638	233,919	225,200	216,481	207,762	199,043	190,324	286,233
2A Jurisdictional Sales	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	32,004,000
2B Total Sales(Ind Spec Cont)	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	1,532,004,000
2C Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	1,500,000,000
3 Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	62,400,000
4 Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040731
5 Authorized Bank Cost of Pur. Pow. Per Decision No. 67676 dated 12/98	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster. Per Decision No. 61298 Dated 12/98	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
6A Supplemental PPFA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
8 Incremental Difference between authorized and actual recovery:	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
9 Net change to Bank balance:	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(104.622)
10 Adjustments to Bank Balance:	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Presapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	277,514	268,795	260,076	251,357	242,638	233,919	225,200	216,481	207,762	199,043	190,324	181,605	181,605

	Forecast Jan-14	Forecast Feb-14	Forecast Mar-14	Forecast Apr-14	Forecast May-14	Forecast Jun-14	Forecast Jul-14	Forecast Aug-14	Forecast Sep-14	Forecast Oct-14	Forecast Jan-15	Forecast Dec-14	
1 Ending Bank Balance from Previous Month	181,605	172,866	164,167	155,448	146,729	138,010	129,291	120,572	111,853	103,134	94,415	85,696	181,605
2A Jurisdictional Sales	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	32,004,000
2B Total Sales(Ind Spec Cont)	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	1,532,004,000
2C Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	1,500,000,000
3 Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	62,400,000
4 Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040731
5 Authorized Bank Cost of Pur. Pow. Per Decision No. 67676 dated 12/98	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster. Per Decision No. 61298 Dated 12/98	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
6A Supplemental PPFA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
8 Incremental Difference between authorized and actual recovery:	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
9 Net change to Bank balance:	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(104.622)
10 Adjustments to Bank Balance:	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Presapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	172,866	164,167	155,448	146,729	138,010	129,291	120,572	111,853	103,134	94,415	85,696	76,983	76,983

MORENCI WATER ELECTRIC CO.  
PURCHASED POWER FUEL ADJUSTER  
BANK BALANCE REPORT FA-1

	Actual Jan-15	Forecast Feb-15	Forecast Mar-15	Forecast Apr-15	Forecast May-15	Forecast Jun-15	Forecast Jul-15	Forecast Aug-15	Forecast Sep-15	Forecast Oct-15	Forecast Nov-15	Forecast Dec-15
1 Ending Bank Balance from Previous Month	78,077	68,258	59,539	50,820	42,101	33,382	24,683	16,944	9,225	2,484	(1,932)	(8,932)
2A Jurisdictional Sales	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000
2B Total Sales(Incl Spec Cont)	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000
2C Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000
3 Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000
4 Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964
5 Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster: Per Decision No 67298 Dated 12/26/86	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
6A Supplemental P-PFA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
8 Incremental Difference between authorized and actual recovery:	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
9 Net change to Bank balance:	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance	68,258	59,539	50,820	42,101	33,382	24,683	16,944	9,225	(1,944)	(10,213)	(18,932)	(27,845)



1 account balance of \$497,247 (representing its under-collection of fuel and purchase power by this  
2 amount) by the end of 2012, growing to \$1,025,664 by the end of 2013.

3 Background

4 3. As of December 2011 Morenci had 2,035 residential and 244 commercial  
5 customers.

6 4. Decision No. 54712 (October 10, 1985) set a base cost of purchased power at  
7 \$0.07522 per kWh that is embedded in base rates. A PPFAC mechanism is established to true-up  
8 revenue collections with the fluctuating costs of purchased power between rate cases. When the  
9 actual cost of purchased power exceeds (or has exceeded) the base cost of purchased power and a  
10 utility's under-recovery of costs is projected to persist into coming months, the PPFAC rate is set  
11 to a positive number. However, when actual purchased power costs are lower than the base cost of  
12 power, as in Morenci's situation, the PPFAC rate is set to a negative number. The PPFAC account  
13 balance tracks the differences between actual purchased power costs and those recovered through  
14 the combination of base rates and the PPFAC rate.

15 5. In Decision No. 68438 (February 2, 2006), the Commission approved the over-  
16 collected threshold level of \$200,000 and the under-collected threshold level of \$500,000 for  
17 Morenci. The Commission further ordered that the Company file an application to establish a new  
18 PPFAC rate either two months prior to the month the account balance was projected by the  
19 Company to reach zero, or by December 31, 2006, whichever occurred first.

20 6. In Decision No. 68813 (June 29, 2006), the Commission approved an adjustor rate  
21 of negative \$0.019 per kWh that replaced the previous adjustor rate of negative \$0.02939 per kWh.

22 7. In Decision No. 71468 (January 26, 2010), the Commission approved a temporary  
23 PPFAC rate of negative \$0.027 per kWh for a 12-month period starting February 2010 through  
24 January 2011. The Commission approved the current PPFAC rate of negative \$0.051 per kWh in  
25 Decision No. 72065 (January 6, 2011).

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Pending Rate Case

8. Morenci filed a rate case on July 29, 2011 in Docket No. E-01049A-11-0300. In the rate case Morenci is proposing a change to the current PPFAC mechanism to include a forward and true-up component, i.e., the existing PPFAC will be reviewed and may be modified in this pending rate case.

Account Balance

9. Over- or under-collections are currently tracked and accumulated in an account with a threshold of \$200,000 for over-collection and \$500,000 for under-collection. The Company's PPFAC account balance has been under-collecting since January 2011 and will exceed the under-collected threshold by January 2013. Morenci states in its application the reason that its account balance will exceed the under-collected threshold is that customers are paying a fuel and purchased power rate that is below the actual cost of fuel and purchased power. Morenci's account balance as of March 2012 is an under-collected amount of \$100,935 and, based on updated forecasts provided to Staff, Morenci estimates the under-collected amount will be \$497,247 by the end of 2012.

Morenci's Proposal

10. Morenci is proposing to change the PPFAC rate from negative \$0.051 per kWh to negative \$0.03122 per kWh starting on or before September 1, 2012. Based on its current estimate of power costs, Morenci believes its proposal will reduce the under-collected balance to \$181,611 by the end of 2013. Attachment 1 is a worksheet illustrating Morenci's actual demand, current PPFAC rate and the associated account balance based on actual data from January 2011 to March 2012 and forecasted demand from April 2012 through December 2015. The worksheet shows the estimated monthly bank balance from September 2012 through December 2015, assuming the proposed PPFAC rate started in September 2012.

11. The current and proposed PPFAC adjustor rates are both negative as Morenci's actual costs for purchased power continue to be lower than the base cost of power set in Decision No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to two industrial customers, copper mines. These sales fall outside the PPFAC because the customers are

1 served under a special contract. The PPFAC mechanism is relevant only to the other two percent  
2 of Morenci's sales consisting of approximately 2,035 residential and 244 commercial customers.  
3 Staff calculated the average monthly use per residential user to be 657 kWh and, based on the  
4 average usage, Staff estimates residential customers will have an average increase of \$12.99 per  
5 month. Staff agrees with Morenci's assessment that an increase from negative \$0.051 to negative  
6 \$0.03122 is necessary to prevent a rapid and expanding under-collection by the Company, and that  
7 the increase is appropriate and in the public interest.

#### 8 Notice

9 12. Morenci has notified Staff that it has published notice of its proposed adjustor rate  
10 in the May 2, 2012 edition of the *Copper Era*, a newspaper of general circulation in Greenlee  
11 County.

#### 12 Recommendations

13 13. Staff has recommended that a PPFAC rate of negative \$0.03122 be approved  
14 starting September 2012, and remain in effect until further order of the Commission.

15 14. Staff has recommended that Morenci notify its customers of the amount of the  
16 PPFAC rate and the potential bill impacts at average monthly levels of kWh use within 30 days of  
17 the effective date of the Decision in this case, and in a form acceptable to Staff.

#### 18 CONCLUSIONS OF LAW

19 1. Morenci is an Arizona public service corporation within the meaning of Article XV,  
20 Section 2, of the Arizona Constitution.

21 2. The Commission has jurisdiction over Morenci and over the subject matter of the  
22 application.

23 3. The Commission, having reviewed the application and Staffs Memorandum dated  
24 June 27, 2012, concludes that it is in the public interest to approve the Purchased Power and Fuel  
25 Adjustment rate proposed by Morenci, as discussed herein.

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27 ...

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ORDER

IT IS THEREFORE ORDERED that a PPFAC rate of negative \$0.051 be implemented by Morenci Water and Electric Company beginning September 1, 2012 and remain in effect until further order of the Commission.

IT IS FURTHER ORDERED that Morenci Water and Electric Company notify its customers of the amount of the PPFAC rate and the potential bill impacts at average monthly levels of kWh use within 30 days of the effective date of this Decision, in a form acceptable to Staff.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
Executive Director of the Arizona Corporation Commission,  
have hereunto, set my hand and caused the official seal of  
this Commission to be affixed at the Capitol, in the City of  
Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

---

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:PML:sms/WVC

Decision No. \_\_\_\_\_

1 SERVICE LIST FOR: Morenci Water and Electric Company  
2 DOCKET NO. E-01049A-12-0142

3 Mr. Jason D. Gellman  
4 Roshka, DeWulf & Patten, PLC  
5 One Arizona Center  
6 COO East Van Buren Street, Suite 800  
7 Phoenix, AZ 85004

8 Mr. Steven M. Olea  
9 Director, Utilities Division  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward  
14 Chief Counsel, Legal Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007  
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MORENCI WATER ELECTRIC CO.  
PURCHASED POWER FUEL ADJUSTER  
BANK BALANCE REPORT FA-1

Docket No. E-01049A-12-0142

	Actual Jan-12	Actual Feb-12	Actual Mar-12	Actual Apr-12	Actual May-12	Actual Jun-12	Actual Jul-12	Actual Aug-12	Actual Sep-12	Forecast Oct-12	Forecast Nov-12	Forecast Dec-12	Total
1 Ending Bank Balance from Previous Month	(547,366)	(490,963)	(444,225)	(410,968)	(372,077)	(340,869)	(303,670)	(247,676)	(187,763)	(130,076)	(88,994)	(55,631)	(547,366)
2A Jurisdictional Sales	2,751,074	2,504,866	2,341,166	2,145,513	1,986,931	2,477,686	3,282,135	3,219,982	3,776,024	2,988,724	2,346,911	2,478,369	32,557,825
2B Total Sales (incl. Spec Cont)	116,208,569	109,306,153	123,909,854	117,197,028	121,655,455	115,468,019	122,026,899	122,993,052	119,241,520	116,433,618	121,223,086	127,008,725	1,436,828,783
2C Special Contract Sales (Industrial kWh)	113,457,095	106,801,287	121,568,694	114,775,065	119,347,843	115,468,019	115,468,019	115,468,019	115,468,019	115,468,019	118,276,175	124,530,356	1,404,270,958
3 Actual Cost of Purchased Power	5,198,368	4,866,909	4,760,353	4,721,302	4,842,906	4,627,419	5,037,032	5,267,467	5,200,000	5,200,000	4,694,462	5,369,241	58,392,504
4 Unit Cost of Purchased Power	0.04473307	0.0428773	0.03941787	0.040285168	0.03913027	0.03923339	0.0412780	0.04287354	0.03949662	0.03949662	0.035878	0.04227694	0.040640
5 Authorized Base Cost of Pur. Pow. Per Decision No. 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchases/Power Adjuster Per Decision No. 67298 Dated 12/99	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)
6A Supplemental PFPA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422
8 Incremental Difference between authorized and actual recovery:	0.020513	0.018659	0.014196	0.016065	0.015953	0.015014	0.017058	0.018607	0.015277	0.013639	0.014256	0.018055	0.018420
9 Net change to Bank balance:	58,433	46,738	33,239	38,909	31,208	37,199	55,992	59,415	57,684.88	41,084	33,463	44,746	536,611
10 Adjustments to Bank balance	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	(490,963)	(444,225)	(410,968)	(372,077)	(340,869)	(303,670)	(247,676)	(187,763)	(130,076)	(88,994)	(55,631)	(10,785)	(10,785)

	Actual Jan-12	Actual Feb-12	Actual Mar-12	Actual Apr-12	Actual May-12	Actual Jun-12	Actual Jul-12	Actual Aug-12	Actual Sep-12	Forecast Oct-12	Forecast Nov-12	Forecast Dec-12	Total
1 Ending Bank Balance from Previous Month	(10,785)	28,370	71,048	100,934	144,969	189,004	233,039	277,074	321,109	312,360	303,671	294,952	(10,785)
2A Jurisdictional Sales	3,019,360	2,864,128	2,782,413	2,667,000	2,967,000	2,867,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	32,698,902
2B Total Sales (incl. Spec Cont)	126,079,153	114,561,153	122,070,911	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	1,515,470,849
2C Special Contract Sales (Industrial kWh)	123,932,555	114,561,153	122,070,911	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	1,482,771,947
3 Actual Cost of Purchased Power	4,773,684	4,532,289	4,293,019	4,200,000	4,200,000	4,200,000	4,200,000	4,200,000	4,200,000	4,200,000	4,200,000	4,200,000	60,368,961
4 Unit Cost of Purchased Power	0.037595141	0.038597194	0.03492566	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.039815
5 Authorized Base Cost of Pur. Pow. Per Decision No. 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchases/Power Adjuster Per Decision No. 67298 Dated 12/99	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)
6A Supplemental PFPA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422
8 Incremental Difference between authorized and actual recovery:	0.013376	0.014377	0.010703	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511	0.016511
9 Net change to Bank balance:	40,654.91	41,172.14	29,805.99	44,034.74	44,034.74	44,034.74	44,034.74	44,034.74	44,034.74	44,034.74	44,034.74	44,034.74	287,019
10 Adjustments to Bank balance	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	29,870	71,048	100,934	144,969	189,004	233,039	277,074	321,109	312,360	303,671	294,952	286,233	286,233

MORENCI WATER ELECTRIC CO.  
PURCHASED POWER FUEL ADJUSTER  
BANK BALANCE REPORT FA-1

	Forecast Jan-13	Forecast Feb-13	Forecast Mar-13	Forecast Apr-13	Forecast May-13	Forecast Jun-13	Forecast Jul-13	Forecast Aug-13	Forecast Sep-13	Forecast Oct-13	Forecast Nov-13	Forecast Dec-13
1 Ending Bank Balance from Previous Month	288,233	277,514	288,795	260,076	251,357	242,638	233,919	226,200	218,481	207,762	198,043	181,605
2A Jurisdictional Sales	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000
2B Total Sales(Incl Spec Cont)	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000
2C Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000
3 Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000
4 Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964
5 Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/05	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster: Per Decision No 61289 Dated 10/10/05	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
6A Supplemental PPA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
8 Incremental Difference between authorized and actual recovery	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
9 Net change to Bank balance:	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	277,514	268,795	260,076	251,357	242,638	233,919	226,200	218,481	207,762	198,043	181,605	181,605

	Forecast Jan-14	Forecast Feb-14	Forecast Mar-14	Forecast Apr-14	Forecast May-14	Forecast Jun-14	Forecast Jul-14	Forecast Aug-14	Forecast Sep-14	Forecast Oct-14	Forecast Nov-14	Forecast Dec-14
1 Ending Bank Balance from Previous Month	181,605	172,886	184,167	155,448	146,729	138,010	129,291	120,572	111,853	103,134	94,415	85,696
2A Jurisdictional Sales	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000
2B Total Sales(Incl Spec Cont)	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000
2C Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000
3 Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000
4 Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964
5 Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/05	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster: Per Decision No 61289 Dated 10/10/05	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
6A Supplemental PPA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
8 Incremental Difference between authorized and actual recovery	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
9 Net change to Bank balance:	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	172,886	164,167	155,448	146,729	138,010	129,291	120,572	111,853	103,134	94,415	85,696	76,977

**MORENO WATER ELECTRIC CO.  
PURCHASED POWER FUEL ADJUSTER  
BANK BALANCE REPORT FA-1**

	Actual Jan-15	Forecast Feb-15	Forecast Mar-15	Forecast Apr-15	Forecast May-15	Forecast Jun-15	Forecast Jul-15	Forecast Aug-15	Forecast Sep-15	Forecast Oct-15	Forecast Nov-15	Forecast Dec-15	
1 Ending Bank Balance from Previous Month	76,977	66,258	59,539	50,820	42,101	33,382	24,563	15,944	7,225	(1,494)	(10,213)	(18,932)	76,977
2A Jurisdictional Sales	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	32,004,000
2B Total Sales(Ind Spec Cont)	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	1,532,304,000
2C Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	1,500,000,000
3 Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	62,400,000
4 Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040731
5 Authorized Base Cost of Pur. Pow. Per Decision No 5712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
6 Authorized Purchased Power Adjuster. Per Decision No 61298 Dated 12/88	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
6A Supplemental PFFA per Decision No. 67076 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7 Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
8 Incremental Difference between authorized and actual recovery:	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
9 Net change to Bank balance:	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(104,622)
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Prorated DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	66,258	59,539	50,820	42,101	33,382	24,563	15,944	7,225	(1,494)	(10,213)	(18,932)	(27,546)	(27,546)

